

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, NOVEMBER 22, 2005**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, November 22, 2005, commencing at 7:02 a.m.

A. ROLL CALL

Present: Council Members – Hansen, Hitchcock, Johnson, and Mayor Beckman
Absent: Council Members – Mounce
Also Present: City Manager King, City Attorney Schwabauer, and Deputy City Clerk Perrin

B. TOPIC(S)

B-1 "Utilities Quarterly Update"

Finance Director Krueger briefly reviewed the financial condition of the three utilities, i.e. electric, water, and wastewater, for the period of 2003 to 2005 (filed).

In response to Council Member Hansen, Mr. Krueger explained that the larger the ratio number, the better. The ratio is the relationship between the current assets (i.e. resources that can be used within a short period of time) and current liabilities. Mr. Krueger stated that the City does not have a goal or objective in terms of what the ratio should be.

City Manager King reminded Council that Mr. Krueger previously presented a comparison of ratios from a random selection of Northern California Power Agency members, and Lodi Electric was the furthest behind. A standard of comparison is only meaningful if there is a standard against which to measure, such as a risk management policy where the City would assess its risk and aid in the condition of the Utility.

Mr. Krueger added that there needs to be a regular review and comparison of how the City is doing on a plan basis against the actual results of performance. For example, if the strategy is to buy energy on the spot market because of the volatility and price, a higher current ratio would be necessary to effectuate that policy. On the other hand, if the risk policy establishes longer-term purchases, there is less of a need for a high current ratio. There are three factors that go into basic analysis of financial condition: quality, quantity of the service being provided, and the price at which it is being provided. The derivative of this analysis is that, if the City is paying more for energy than what it is charging the customers, the factor results in the current ratio going down over time. When the City borrows money, the objective should be that it use the proceeds to either buy assets that afford it the opportunity to provide more (or better quality) service or to provide services at less of a cost. The bottom line ratio is the debt to equity ratio, and a higher ratio indicates that a lot of money was borrowed without the return.

Mayor Pro Tempore Hitchcock questioned why the water fund debt went from \$25 million in 2004 to \$5 million in 2005, to which Mr. Krueger responded that when the case with Lehman Brothers was settled, it reduced the outstanding debt, thereby improving the debt equity ratio in the water fund. The increase from 2003 to 2004 in the wastewater fund was for a large debt issuance done at the end of 2004.

City Manager King stated that quarterly reports are common among electric utilities and he pointed to the Palo Alto report in the Council's packet (filed) as one example. There is an extensive process that utilities go through, which involves Council and staff.

Council Member Hansen expressed his opinion that he would like to see more of a graphic presentation to demonstrate at a glance what the standard and the measurements are, after which the numbers could be analyzed in more detail.

Mayor Pro Tempore Hitchcock countered that she is more interested in seeing the numbers, as it better shows the entire picture. Additionally, she would like to see a longer period of comparison, not just three years.

Manager of Electric Services, Mel Grandi, stated that staff is exploring methods of reporting and is continuing to work on the risk policy. Additionally, staff is developing a five-year capital improvement spending plan; most, if not all, of which will come from bond proceeds. During the development of this plan, attention will be given to major projects that are valuable and that generate revenue or additional reliability to the City on a long-term basis. Because of the geyser unit going off-line, the City has a net open position for the month of December. Currently, the cash value is approximately \$1.2 million through the end of June. The City's target is a 95% level, and it is in good condition at 93%. The net open position for 2006-07 has not been purchased. Staff is researching various alternatives for generation resources and pricing opportunities and will return to Council with options in the next few months. Risk management plans in other utilities have typically taken two to three years to fully develop.

Mayor Pro Tempore Hitchcock cautioned that the risk management plan not be so technical that it is difficult to understand and she hoped that once it is prepared staff would give a detailed presentation that would thoroughly explain the plan.

City Manager King stated that there are some straightforward elements of a risk management plan, such as not vesting the authority to make power purchase decisions with one individual, describing a check and balance system, and not putting at risk any money beyond the ability of the utility to absorb a loss. Some risk management plans establish proportion percentages on how much power to buy on the open market versus ownership capacity and some create an internal risk management committee, which reviews, independent of the Council, the financial condition of the utility.

Council Member Johnson questioned what the City's goal is to adequately control its exposure and to leverage the benefits between now and the time it takes to create a comprehensive risk management plan. He suggested that plans from other cities be used in helping to design Lodi's plan.

Public Works Director Prima reported that the 2004-05 wastewater operating budget was \$4 million and it came in at \$3.6 million. With the exception of sanitary system maintenance, which was very close, all accounts were under budget. The capital side is different in that it accounted for PCE/TCE for the first time in the amount of \$800,000. It has been an issue for the last few years of trying to fund the PCE/TCE battle without accounting for it in the budget. The budget ultimately came in at \$1.9 million, which was managed by offsetting on the capital side and deferring projects. The water operating budget was \$4 million and it came in at approximately \$3.4 million. With the exception of distribution system maintenance, which was slightly over budget, everything was quite a bit below. On the capital side, more money was spent on PCE/TCE than was budgeted, which was due mainly to legal expenses.

There are currently seven vacancies in the water and wastewater utilities:

- Water/Wastewater Superintendent, which may be filled next June.
- Water Conservation Coordinator, which has been vacant for quite a few years. The work is spread among other staff, as well as using part-time assistance, to keep the program functioning.
- Senior Plant & Equipment Mechanic, which may change to a supervisor position in order to flatten the organization.
- Two plant operators and a maintenance worker at the wastewater plant, which has been a challenge to the department as operators in the wastewater industry are getting more difficult to find and keep.
- Management Analyst, which was budgeted for four years on a contract basis. It is anticipated that this position will eventually be converted into full-time.

Other water and wastewater needs include:

- Engineering positions budgeted in water and wastewater that typically work at City Hall are working at the Municipal Service Center with the operations staff.
- Environmental compliance is an area that will receive more pressure from the state in the way of educational programs.
- State certifications are constantly increasing and staff expects to see additional requirements for sewer workers and collection system maintenance workers.
- Regional water supply activities.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 7:55 a.m.

ATTEST:

Jennifer M. Perrin
Deputy City Clerk